

STATE BOARD OF EQUALIZATION

Sales and Use Tax Program

TAX GAP PROPOSAL

Fiscal Years 2008-11

A. Nature of Request

This proposal requests positions and funding to address California's estimated \$2 billion sales and use tax gap. The proposal takes a comprehensive approach at improving compliance on taxes owed in the three main components of the tax gap: \$1.2 billion related to use tax, \$450 million related to non-filers and tax evaders, and \$400 million related to registered taxpayers. The proposal addresses the gap using cost-effective, fair and efficient methods. The tax gap proposal is built upon a foundation of:

- promoting voluntary compliance through education and outreach,
- implementing new programs,
- improving current programs, and
- augmenting staff to adequately address these efforts.

The likelihood of success is improved by addressing each of the following tax gap components as a group, rather than as separate and disconnected proposals. This BCP breaks down the proposed efforts into eight separate proposals under the three main segments of non-compliance.

Use Tax

1. In-State Service Businesses
2. Individual Consumers

Non-Filers and Tax Evaders

3. Internet Sales
4. Itinerant Vendors
5. Cash Based Businesses

Registered Taxpayers

6. Audit Program Improvements
7. Collection Program Improvements
8. Expanded Bankruptcy and Out-of-State Collections

Undertaking these proposals¹ beginning in Fiscal Year (FY) 2008-09 will enable the Board of Equalization (BOE) to begin addressing the growing tax gap compliance problem beyond current budgeted level. These efforts will generate revenue in the short-term as well as enhance overall voluntary tax compliance in the long-term.

¹ The Statewide Business Licenses Inspection Program and the Customs Program also address tax gap components and are funded under separate BCPs.

BOE estimates these tax gap enforcement efforts will produce revenue benefits of \$41.8 million at a total cost of \$14,524,000 (2.9:1) which includes 145 additional positions in FY 2008-09, with revenues increasing to \$73.9 million at a total cost of \$23,693,000 (3.1:1) which includes 270.5 additional positions in FY 2009-10, and approximately \$89 million at a total cost of \$22,204,000 (4:1) which includes 270.5 additional positions in FY 2010-11 (see Exhibit I). The BOE estimates that the program will continue to generate additional revenues at the FY 2010-11 levels in subsequent years. For all three years (FY 2008/09 to 2010/11), the total revenue is \$207.7 million, costs are \$60.2 million and additional positions are 270.5 for this tax gap proposal.

B. Background/History

The tax gap is defined as the difference between what is owed and what is paid. California's sales tax gap is estimated at \$2 billion. The estimated gap does not include those revenues lost to unknown illegal activities, nor does the estimate include other taxes/fees administered by the BOE, or taxes administered by the Employment Development Department (EDD) or Franchise Tax Board (FTB).

Revenue agencies historically have addressed tax cheating, non-filing and erroneous filing through a variety of program activities funded according to a "return-on-investment" methodology. For example, a \$5:\$1 benefit-to-cost ratio (BCR) traditionally has been the measurement to use when considering the expansion of BOE's existing compliance programs. While this approach correctly attributes short-term revenue associated with a specific business activity, such as auditing tax returns, it does not reflect the longer term benefits that result from undertaking a comprehensive set of compliance activities such as the programs described in this BCP. These benefits consist of increased voluntary compliance on the part of individual and business entity taxpayers who, once they have been made aware of their tax obligations, will choose to file accurately and pay what they owe in the future, rather than join the ranks of those who fail to file and pay or those who misreport sales.

The following factors also should be considered in evaluating the intended fiscal and policy outcomes intended by this BCP:

- The BCR approach only takes into consideration revenue associated with a specific business activity, such as auditing tax returns, over a relatively short-term period.
- The BCR does not reflect longer-term benefits that result from undertaking a "holistic" set of compliance activities such as the programs described in our BCP.
- The BCR approach does not measure benefits associated with increased voluntary compliance on the part of individual and business entity taxpayers who will choose to file accurately and pay what they owe in the future, rather than join the ranks of those who fail to file and pay or those who intentionally misreport sales.

Historically, BOE has not attempted to estimate revenue associated with increases in voluntary compliance resulting from enforcement measures. Such measurement is difficult to "baseline." However, there have been some estimates related to the income tax. For example, FTB submitted a FY 05/06 BCP that indicated revenue for one measure, the use of escrow/title company information to identify payments made to real estate brokers to result in \$1.3 million (when fully implemented) and an increase in voluntary compliance as estimated to be at least \$10 million. This 10 to 1 ratio is a reasonable estimate related to improved voluntary compliance for sales and use tax matters.

Implementing the tax gap enforcement measures described in this BCP will produce new revenue and will accelerate revenue. But more importantly, these measures will cause taxpayer behavioral changes and improve self-compliance over the long term – resulting in revenue collected in the most cost effective process. Although staff continuously strives to improve taxpayer compliance, BOE will likely not discover any significant portion of the tax gap revenue owed to the State of California unless it undertakes new tax gap programs such as those proposed in this BCP.

Informing the public of these new efforts and providing information to increase understanding of tax obligations through the media, industry groups, and tax professionals will help the proposed efforts have a much broader impact on taxpayer behavior than the result of a single enforcement action on an individual taxpayer. Providing the education necessary to maximize voluntary compliance, changing the attitudes and behavior of taxpayers who cheat or are considering cheating, and reassuring honest taxpayers that they are doing the right thing requires vigorous enforcement of the tax laws and notification to taxpayers that they will get caught and face consequences if they cheat. Enforcement efforts lose their effectiveness if only a few taxpayers know that BOE has strengthened its programs. Therefore, closely tied to this proposal, is an education and publicity element.

Education and publicity will:

- Provide the information and tools necessary to allow those that are willing to comply, the ability to do so.
- Encourage future self-compliance by taxpayers who are currently circumventing their tax obligations.
- Deter others who are considering noncompliance.
- Reassure compliant taxpayers that paying their fair share is the right thing to do.

Special attention has been made in developing these proposals to minimize new burdens placed on our current law abiding businesses. Nevertheless, BOE recognizes that additional burdens may be imposed on a few industry groups if enforcing current third-party reporting requirements and legislating new third-party reporting requirements are implemented. Staff will only request relevant, necessary information and will protect that information consistent with our current high standards.

C. State Level Considerations

This BCP addresses the Legislature's intent to close the \$2 billion sales and use tax gap and is consistent with the BOE's Strategic Plan. Specifically, the proposed initiatives address the following Strategic Plan Goals:

Maximize Voluntary Compliance in BOE's Programs:

Closely tied to this proposal is an education and publicity element. Informing the public of these new provisions through the media will help the individual proposals have a much broader impact on taxpayer behavior and the tax base than the result of a single enforcement action on an individual taxpayer. The emphasis placed upon these provisions through education and publicity will encourage future self-compliance by taxpayers who are unaware of their tax obligations, currently circumventing their tax obligation, deter others who are considering noncompliance, and reassure compliant taxpayers that pay their fair share. In addition to education and publicity, the proposed enforcement efforts will also improve voluntary compliance.

Improving the Efficiency of BOE's Tax and Fee Programs:

The proposals in this BCP are directed to both noncompliant taxpayers and taxpayers that do not understand their reporting responsibilities. Taking action to close the tax gap will result in a more equitable taxation between noncompliant taxpayers and taxpayers who voluntarily comply with the State's tax laws. These proposals place few new burdens on compliant businesses.

Create an Expanded and Responsive Infrastructure:

In conjunction with the Federal/State Steering Committee on Bridging the Tax Gap, the BOE is working to expand our external partnerships with the FTB and EDD as well as DMV and other local taxing jurisdictions to explore, use, and share best practices that capitalize on the development and implementation of successful data exchange models and applications.

D. Justification and Analysis of All Feasible Alternatives

This proposal addresses segments of the tax gap in a comprehensive manner by undertaking new deterrent measures, improving and extending current processes, by creating public awareness through education and outreach, and by increasing enforcement of existing statutes. The proposal generates immediate revenue for the state and increases tax revenues over the long term through increased voluntary compliance on the parts of both individuals and business entity taxpayers. The following is a description of the main tax gap segments and the initiatives proposed to address these segments.

Use Tax

The portion of the tax gap that relates to use tax is attributable to three areas; individual consumers, in-state businesses (primarily service industries), and out-of-state sellers that make sales to California customers. To address this portion of the gap successfully, there must be an increase in payments by purchasers (individuals and businesses) and an increase in voluntary collection by out-of-state sellers. With over \$1.1 billion (57.6% of the gap) in use tax that is not reported or paid to the state, the BOE cannot ignore this portion of the tax gap. Continuing to recognize that voluntary compliance is the most cost-efficient manner to collect taxes, the BOE must first dedicate the resources necessary to ensure that individuals and businesses, especially those that currently have no contact with BOE, understand their tax obligations, and are provided the tools necessary to comply. The BOE must then establish enforcement efforts to maintain compliance. The BOE will examine its current efforts in increasing voluntary collection by out-of-state sellers without requesting additional resources. However, to address the other areas of the use tax gap, this BCP proposes the following efforts to ensure the BOE can efficiently collect the maximum amount that is attributable to this portion of the gap.

1. In-State Service Businesses

The use tax incurred by in-state service businesses is primarily a result of service industries that purchase capital assets from out-of-state. When the seller is not registered to collect the use tax for California, the transaction becomes one of use tax for the buyer. The initial efforts to address this part of the gap will focus on voluntary compliance. While the BOE has the least amount of knowledge about service industries (versus retailers, wholesalers, and manufacturers) since they are not required to hold seller's permits, there are resources available to gather knowledge so that efforts are appropriately focused on the businesses most likely to owe use tax. For example, the amount of equipment expenditures by industry type is a major consideration when determining which industries are likely to owe the largest amounts of use tax. A specific example is that information indicates the Finance and Insurance industry had equipment expenditures of \$122.5 billion in 1995. It is extremely likely that some of these purchases were from out-of-state retailers and that a use tax liability has been incurred.

Education and enforcement efforts will be based on information and best practices from other states, data matching with current and new resources, information from current programs such as the Statewide Business Licenses Inspection Program and the Customs Program², and conducting research to develop the knowledge necessary to be efficient. The BOE will begin education and outreach efforts immediately on a limited basis with our current resources. This will allow for an additional year of education opportunities.

Initial efforts will involve sending letters to service industries most likely to have a use tax liability and providing the information and resources so that they understand and may choose to comply voluntarily. In cases where voluntary compliance is not obtained, the BOE will implement an enforcement program similar to what currently exists under the sales and use tax program. It will involve audit selection, conducting audits and enforcing collections. This will result in voluntary compliance, new registrations, appeals, requests for refunds, and other related functions necessary to support this type of program. There are currently about 2 million businesses in California that are not required to be registered with the BOE. Our current staffing levels are consumed by our existing audit and collection program. In order to address this new population under an audit and compliance program, staff augmentation is required.

Staff proposes to use data miners in the Tax Policy Division to identify service businesses that have a high potential for purchases subject to use tax. This information will be forwarded to the Centralized Collection Section (CCS) to send letters to these businesses explaining what the use tax is, and how it may apply to purchases they have made. Included with the letter will be a return for reporting the use tax. CCS will track responses and follow-up on the portion of non-responses identified to be cost-effective.

Leads that cannot be resolved in the CCS will be forwarded to the field for investigation by field auditors and collectors. Audit and compliance supervisors, audit control clerks, and Tax Technicians would be required to support these new auditor and collector positions. Staff would also be needed in the Audit Determination and Refund Section to process additional billings related to this effort. Staff will also be needed in the BOE's headquarters office to support these new efforts for use tax discovery including audit training, system maintenance and improvements, investigations, and taxpayer outreach, as well as additional administrative staff to handle the increase in personnel.

Resource Need: FY 2008/09 - \$ 4.4 million / 49.5 positions
FY 2009/10 - \$8 million / 106.5 positions
FY 2010/11 – \$7.5 million / 106.5 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$13.6 million
FY 2009/10 - \$25.5 million
FY 2010/11 - \$34.2 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 - 4.6:1

² Both of these programs address tax gap components and are funded under separate BCPs.

Pros:

- Generates up to \$34.2 million annually by FY 2010/11 with a benefit-to-cost ratio of 4.6:1.
- Encourages taxpayer voluntary compliance due to increased awareness of the use tax program through education and outreach.
- Reaches an entirely new segment of the population that owes use tax.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$4.4 million in FY 2008/09, \$8 million in FY 2009/10, and \$7.5 million in FY 2010/11.
- There may be businesses that are not aware of the requirement to pay use tax despite our previous education and outreach campaigns.
- Requires reporting of past due amounts from a segment of California businesses that may not have been aware of the use tax.

2. Individual Consumers

With the increase in purchases made over the Internet, most households in California incur a use tax liability each year. However, the majority of Californians are not aware that use tax exists, or if they do, they do not understand how and when it applies. The most common way for an individual to incur a use tax liability is to purchase something for use in California from a company out-of-state that does not charge California tax. Since the average amount per household is believed to be around \$35, it is not feasible or cost effective to pursue each of these consumers. The most cost efficient way to increase collection of this tax is to improve voluntary compliance.

In an effort to improve voluntary compliance from individuals, the BOE must expand education and outreach. The most common way for an individual to report use tax is through the income tax return. Of the 15.4 million individual income tax returns filed in 2006, only 31,000 reported use tax, for a total of about \$5.03 million. Based on the estimated tax gap, there remains an additional \$288 million in individual use tax due to the state. Since the BOE currently enjoys a 96% voluntary compliance rate for our current sales and use tax program that focuses on retailers, it is believed that once the majority of individuals are aware of, and understand their responsibility, the rate of voluntary compliance will substantially increase. Informing the public of this effort through the media and tax professionals will have a much broader impact on taxpayer behavior than the result of a single enforcement action on an individual taxpayer.

In addition to education and outreach efforts, staff proposes analyzing the success of enforcement methods in other states. It is commonly accepted that voluntary compliance improves when there are enforcement efforts to support the program. While it would not be a prudent use of state resources to initiate an audit program for small dollar individual use tax purchases, California could implement changes to the reporting requirements that have improved voluntary reporting in other states. For example, requiring individuals to indicate some number, inclusive of zero, on their income tax return if they have not previously completed a use tax return for the year, and having them sign those returns stating they are correctly reporting their use tax along with their income tax amounts. This would increase awareness and likely voluntary compliance. Another tool that has been effective in other states is the inclusion of a "look-up" table in the income tax return indicating average use tax amounts incurred based on income ranges. Other states have also implemented programs to impose preparer penalties for tax preparers in order to improve reporting.

Proposals that require legislation (e.g., “look-up” tables and preparer penalties), would receive thorough review and analysis during the legislative process. That process would also provide a forum for public input on the issue. While we have not requested funding directly related to proposed legislative changes, it is important to note that these efforts are included as part of our comprehensive approach to the tax gap.

Education and outreach resource request: To achieve the projected revenue, staff requests \$1 million for funding the education and outreach effort necessary to make this proposal possible. These funds will be used to purchase advertising themes, slogans, public service announcements, and print media placement. This amount is included in the Resource Need listed below.

The Communications office will develop and coordinate education and outreach efforts and the Forms and Publications Section will edit notices, flyers and other printed documents, as well as coordinate the printing of materials related to this effort. The Customer and Taxpayer Services Division staff will respond to the expected increase in telephone inquiries related to the new promotion of the use tax line on the income tax return. The Return Analysis Section will review and process necessary corrections to amounts reported on the use tax line and to collect any amounts that are unpaid at the time of filing. The Local Revenue Allocation Unit will allocate and reconcile the portion of the use tax reported on the income tax returns to the appropriate cities and counties.

Resource Need: FY 2008/09 - \$631,000 / 1.5 positions
FY 2009/10 - \$746,000 / 4.5 positions
FY 2010/11 - \$416,000 / 4.5 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$1 million
FY 2009/10 - \$2 million
FY 2010/11 - \$4 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 - 9.6:1

Pros:

- Generates up to \$4 million annually by FY 2010/11 with a benefit-to-cost ratio of 9.6:1.
- Encourages taxpayer voluntary compliance due to increased awareness of the use tax program through education and outreach.
- Promotes the most cost effective method of obtaining small dollar taxes owed by a large number of taxpayers.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$631,000 in FY 2008/09, \$746,000 in FY 2009/10, and \$416,000 in FY 2010/11.
- No statistical information available to verify that past media efforts have resulted in increased reporting of use tax on the FTB return.

Non-Filers and Tax Evaders

The portion of the tax gap that relates to non-filers/evaders comes from Internet sales, itinerant vendors, cash-based businesses, and businesses that intentionally evade tax for their own purposes. To address this portion of the gap, the BOE must be proactive in locating these businesses and pursuing compliance in an effort to level the playing field for all businesses in California. The non-filers/tax evaders make up 22.4% or \$450 million of the sales and use tax gap. This portion of the gap may require more time and resources for collection since it appears these businesses are either unaware of their tax obligations or choose to ignore them. However, by finding and issuing permits to these businesses, the BOE will provide law-abiding, registered businesses an opportunity to compete on a level playing field. This BCP covers each of the primary areas that make-up the portion of the tax gap contributable to non-filers/tax evaders.

3. Internet Sales

There are California retailers that make sales through the Internet that require a permit, but do not hold one. At this time, there are no clear estimates as to how many retailers, or the amount of revenues lost to the state. This effort should include the education necessary to ensure that sellers understand their obligations with respect to the sales tax and that buyers understand their responsibility in relation to their use tax liabilities. The BOE would like to immediately begin partnering with all internet providers in California to provide education and outreach on the internet providers site. The agency would also like to participate in any forum available through the providers to further educate both sellers and buyers. This allows a full year of education before any resources are acquired to address this segment of the tax gap. At the end of that education period, the BOE proposes again partnering with the on-line marketplaces to gather additional statistics as to the level of compliance or lack thereof. If the majority of the California sellers are compliant with holding a permit and reporting tax, additional efforts in this area may not be effective to pursue. However, if the majority of sellers are not compliant, the BOE would continue to work with the on-line markets to identify those taxpayers and obtain the information necessary to ensure proper reporting of taxes will take place.

Success is dependent upon voluntary compliance through education and ensuring that California on-line retailers hold a seller's permit and report and remit all taxes legally due. Businesses that operate in a manner that permits them to make sales without paying the sales tax or collecting sales tax reimbursement from their customer receive a pricing advantage over the law abiding businesses in this state that legally collect and report their taxes.

Working cooperatively with on-line marketplaces in these efforts is the most cost efficient approach. Absent that partnership, the BOE must look to research, data matching opportunities, manual searches, and other available options to identify opportunities for addressing this issue. While these options will require additional resources and will take more time and effort, the BOE should be compelled to find innovative ways to address this issue and make clear efforts to promote fairness for all within the taxing system.

In addition to the on-line marketplaces, internet research can produce an enormous amount of information. Efforts related to identifying on-line businesses, sales of high dollar items, records relating to imports, and other information can be used to generate leads and produce new revenues.

Staff proposes that a data miner in the Compliance and Technology Section would match information provided by third parties against the BOE's current data sources. Leads generated from this investigation will be forwarded to the Centralized Collection Section (CCS) to investigate and determine if a permit is required. CCS will also handle collection of prior taxes owed by these retailers. In addition, analysts in CCS would research Internet sites for retailers located in

California that do not hold seller's permits and other types of leads through internet research. These analysts, however, would not perform data matching.

Auditors and collectors in the district offices would investigate accounts discovered resulting from data matching that cannot be resolved by the CCS efforts.

Resource Need: FY 2008/09 - \$689,000 / 9.0 positions
FY 2009/10 - \$747,000 / 11.0 positions
FY 2010/11 - \$726,000 / 11.0 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$7.9 million
FY 2009/10 - \$10.5 million
FY 2010/11 - \$11.35 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 - 15.6:1

Pros:

- Generates up to \$11.35 million annually by FY 2010/11 with a benefit-to-cost ratio of 15.6:1.
- Encourages taxpayer compliance due to increased awareness of the sales tax program through education and outreach.
- Levels the playing field between California on-line sellers and brick-and-mortar sellers.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$689,000 in FY 2008/09, \$747,000 in FY 2009/10, and \$726,000 in FY 2010/11.
- Projected revenue amounts assume BOE will partner with on-line marketplaces to obtain investigative leads.

4. Itinerant Vendors

Itinerant vendors include out-of-state retailers that come into California for short periods to make sales and then leave, such as Christmas tree retailers and trade show participants. They also include in-state sellers such as those that sell at swap meets and street corner merchants, as well as sellers that only sell periodically such as animal breeders.

To address out-of-state retailers with California nexus, the BOE will data match with current and new resources to identify these businesses. Once they have been identified, they will be informed of their permit and reporting requirements and seek voluntary compliance. If voluntary compliance cannot be obtained, the BOE will implement enforcement efforts similar to those that exist under the current sales and use tax program.

The issue of nexus can sometimes be complicated. As such, the BOE will review current nexus statutes and regulations to determine if clarification can be provided. If it is determined that clarification can provide the understanding or bright line necessary to help taxpayers, the BOE will follow current process for obtaining the approvals and input required to make changes. Ensuring that businesses understand the nexus application is a necessary step to ensure maximum voluntary compliance.

Staff in the Tax Policy Division - Audit Information Section will develop methods for discovering itinerant vendors that do not hold seller's permits. Leads generated from this investigation will be forwarded to the field for investigation by field auditors and collectors.

Resource Need: FY 2008/09 - \$198,000 / 2.5 positions
FY 2009/10 - \$323,000 / 4.5 positions
FY 2010/11 - \$302,000 / 4.5 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$291,000
FY 2009/10 - \$793,000
FY 2010/11 - \$1.05 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 - 3.5:1

Pros:

- Generates up to \$1 million annually by FY 2010/11.
- Encourages taxpayer compliance due to increased awareness of the sales tax program through education and outreach.
- Creates public awareness of the consequences of tax evasion.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$198,000 in FY 2008/09, \$323,000 in FY 2009/10, and \$302,000 in FY 2010/11.
- Estimated benefit-to-cost ratio of 3.5:1 is lower than other tax gap efforts.

5. Cash Based Businesses

By their nature, it is easier for cash based businesses to underreport or not report their sales. When all business dealings are for cash and records are not maintained, these transactions are virtually impossible to trace. Auditing these types of businesses is often more difficult and time consuming. The BOE's approach to address this portion of the gap includes working in partnership with other agencies to ensure there is an exchange of information regarding cash based businesses so that such businesses become part of the system and are easier to track and audit. The approach also includes the establishment of effective audit techniques to address the issues involved with cash transactions and continues to build on the foundation of knowledge for these types of businesses so that the challenges surrounding their business operations can be adequately addressed.

Staff in the Tax Policy Division - Audit and Information Section will work with field staff to develop methods for discovering underreporting by cash based businesses. Leads generated from this investigation will be forwarded to the field for investigation by auditors and collectors.

Resource Need: FY 2008/09 - \$215,000 / 2.5 positions
FY 2009/10 - \$263,000 / 3.5 positions
FY 2010/11 - \$250,000 / 3.5 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$291,000
FY 2009/10 - \$562,000
FY 2010/11 - \$743,000
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 – 3.0:1

Pros:

- Generates up to \$700,000 annually by FY 2010/11.
- Encourages taxpayer compliance due to increased awareness of the sales tax program through education and outreach.
- Includes data exchange with other tax agencies.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$215,000 in FY 2008/09, \$263,000 in FY 2009/10, and \$250,000 in FY 2010/11.
- Estimated benefit-to-cost ratio of 3:1 is lower than other tax gap efforts.

Registered Taxpayers

The Sales and Use Tax Department (SUTD) has a successful program to administer the sales and use tax for the State of California. SUTD performs four critical functions; registering accounts, processing returns, performing audits and collecting delinquent taxes. In fiscal year 2005/06, about one million accounts were registered to report sales and use tax. These accounts filed 2.3 million returns with revenues totaling \$44.3 billion.

The foundation of this program relies upon voluntary compliance. While voluntary compliance is the most cost effective way to collect taxes, it is reliant upon the existence of enforcement efforts. It is commonly accepted that the level of voluntary compliance is directly linked to the level a person believes they can underreport without detection and the resulting consequences if caught.

To supplement the current level of voluntary compliance, in fiscal year 2005/06, 4,901 Audits and Field Billing Orders were completed. During the same period, collection staff collected \$638 million of the \$800 million in accounts receivable.

Despite the success in performing the four core functions and the high level of voluntary compliance, the analysis of the tax gap indicates there are cost-effective revenue opportunities available within the current population of registered taxpayers. With adjustments to the current program and new resources to make efforts complete, the likelihood of decreasing this portion of the gap is high.

6. Audit Program Improvements

An efficient audit program is heavily dependent upon selecting the right businesses for audit. The BOE recently purchased analytical modeling software to build improved selection models that include new data sources. To maximize the opportunity for success, data must be fed into the system. As such, SUTD is using the numerous data sources already in place, requesting new data, and continually searching for additional data sources to utilize. Software and technology have provided vast improvements in the area of data matching; however, the process still requires a good deal of time, unique personnel resources, and manual manipulation to be successful. Many of the tax gap proposals are dependent on initial data matching efforts that must be completed prior to performing any other function.

Once data matching and modeling has been completed to ensure the most cost-effective accounts have been identified for audit, simply increasing resources to audit more of the tax base will result in identifying a larger portion of the tax that remains underreported. Besides adding resources, reviewing current audit techniques and changing traditional approaches to improve efficiencies will allow for coverage of more of the audit base and may provide additional insight into new revenue sources. Proposed audit improvement efforts also place an emphasis on auditing out-of-state accounts, as those audits have consistently been productive. There has also been a continued growth in accounts eligible for audit in the out-of-state offices. Analysis indicates that the level of staff requested would continue to produce revenues consistent with the current levels achieved by current staff.

In order to expand and improve the BOE's audit program, staff proposes hiring audit staff at both the Associate Tax Auditor and Business Taxes Specialist I levels to audit complex in-state accounts. Audit supervisors, reviewers, audit control clerks, and LAN coordinators would be required to support these new auditor positions. In order to maintain the current ratio of auditors to collectors, staff also proposes hiring field collectors at the Business Taxes Representative, Business Taxes Compliance Specialist, and Business Taxes Specialist I levels. Compliance supervisors and Tax Technicians would be required to support these new collector positions.

Staff also proposes expanding the BOE's out-of-state audit program by twenty-four out-of-state auditors at the Associate Tax Auditor and Business Taxes Specialist I levels. Audit supervisors, an audit reviewer, and a LAN coordinator would be required to support these new auditor positions. An additional collector in the Centralized Compliance Section would be required to handle expected accounts receivable from increased out-of-state audit activity.

Staff would also be needed in Headquarters to support the audit program improvements including audit training, system maintenance and improvements, petitions, refunds, appeals, investigations, litigations, as well as additional administrative staff to handle the increase in personnel.

Resource Need: FY 2008/09 - \$6.6 million / 61.0 positions
FY 2009/10 - \$10.8 million / 107.5 positions
FY 2010/11 - \$10.2 million / 107.5 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$11.6 million
FY 2009/10 - \$24.6 million
FY 2010/11 - \$27.4 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 – 2.7:1

Pros:

- Generates up to \$27.4 million annually by FY 2010/11.
- Includes hiring 24 out-of-state auditors to address the continued growth in accounts eligible for audit in the out-of-state offices.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$6.6 million in FY 2008/09, \$10.8 million in FY 2009/10, and \$10.2 million in FY 2010/11.
- Estimated benefit-to-cost ratio of 2.7:1 is lower than other tax gap efforts.

7. Collection Program Improvements

The BOE consistently strives to improve the current collection program with limited resources. However, the addition of resources can directly increase revenues. Staff estimates that adding new collectors and improving data matching can result in collection of an additional \$6 million of the current accounts receivable by FY 2010/11. Parallel to the audit program, adding resources is only one approach. Reviewing current processes and considering changes as well as taking advantage of automation and efficiencies will also result in improvements. For example, the BOE already has a project in process to establish electronic funds transfers when a taxpayer enters into a formal payment agreement. This will increase the likelihood of successfully completed payment arrangements. The collectors currently have many tools available to ensure success; however, automating functions such as filing liens and levies under specific conditions can make a portion of the collection process more efficient.

In order to expand and improve the BOE's collection program, staff proposes hiring field collectors at the Business Taxes Representative, Business Taxes Compliance Specialist, and Business Taxes Specialists I levels. Compliance supervisors and Tax Technicians would be required to support these new collector positions.

The Tax Policy Division - Compliance Policy Unit would research and work with field staff to develop improved policies and procedures related to tax gap efforts. This unit would also develop leads from improved data matching to forward to staff in the Centralized Collection Section to investigate. Further, the Compliance and Technology Section would program and maintain the Sales and Use Tax Department's Automated Compliance Management System to automate the lien and levy process as well as handle on-going case management related to the increase in the number of collectors. Staff in the Customer and Taxpayer Services Unit would respond to the expected increase in telephone inquiries related to the improvements to collection activities, as well as the automation of liens and levies.

Resource Need: FY 2008/09 - \$1.3 million / 14 positions
FY 2009/10 - \$2 million / 24 positions
FY 2010/11 - \$1.9 million / 24 positions
(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$2.9 million
FY 2009/10 - \$5.8 million
FY 2010/11 - \$6.0 million
(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 - 3.1:1

Pros:

- Generates up to \$6 million annually by FY 2010/11.
- Improves efficiency by automating manual processes such as the filing of liens and levies.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$1.3 million in FY 2008/09, \$2 million in FY 2009/10, and \$1.9 million in FY 2010/11.
- Estimated benefit-to-cost ratio of 3.1:1 is lower than other tax gap efforts.

8. Expanded Bankruptcy and Out-of-State Collections

The agency must identify and adapt to environmental business changes in order to effectively manage tax recovery from out-of-state and bankrupt debtors. Electronic recordation of tax liens will speed up the process, which could result in BOE obtaining a higher lien priority than competing creditors, resulting in BOE obtaining funds not available to junior creditors. Utilizing education and outreach opportunities to highlight taxpayers' obligation to report and pay taxes in their bankruptcy plans will improve voluntary compliance.

The sale of capital assets by out-of-state sellers with California locations is a growing problem. These businesses often do not realize that their liquidation or sale of California assets is an event subject to tax. For the businesses that file bankruptcy, contracting with the Franchise Tax Board to data match information from the bankruptcy courts instead of relying on the debtor to appropriately notify BOE of a bankruptcy will improve the BOE's chances of recovery.

In order to achieve the projected revenues, technical analysts would be needed for data matching with the FTB database and to make changes to the Board's Automated Compliance Management System. Additional collectors would be required at the Business Taxes Compliance Specialist, Business Taxes Specialist I, and Business Taxes Representative levels to handle collections of amounts from \$10,000 to over \$50,000. A Tax Technician III would handle small dollar collections (under \$10,000) as well as lien filing and recordation. A Business Taxes Compliance Supervisor II and an Associate Government Programmer Analyst would be required to support these new positions.

Resource Need: FY 2008/09 - \$534,000 / 5.0 positions

FY 2009/10 - \$713,000 / 9.0 positions

FY 2010/11 - \$713,000 / 9.0 positions

(See Position Summary Exhibit II)

Revenue Benefits: FY 2008/09 - \$4.2 million

FY 2009/10 - \$4.2 million

FY 2010/11 - \$4.2 million

(See Revenue Analysis Exhibit III)

Benefit to Cost Ratio: FY 2010/11 – 5.9:1

Pros:

- Generates \$4.2 million annually with a benefit-to-cost ratio of 5.9:1 in FY 2010/11.
- Improves efficiency by automating manual processes such as the filing of liens and levies.
- Provides resources to address a segment of the tax gap.

Cons:

- Requires funding of \$534,000 million in FY 2008/09, \$713,000 million in FY 2009/10, and \$713 million in FY 2010/11.

E. Outcomes and Accountability

This proposal addresses the three components of the sales and use tax gap: use tax, non-filers and tax evaders, and registered taxpayers. The outcome of approving the BCP will be measured by increases in businesses that hold a permit, increases in consumer use tax permit holders, revenue generated by new registrations, use tax revenue from individuals and service businesses, increased audit assessments, and decreased accounts receivables.

F. Timetable

Staff can be hired and begin training in July 2008. Staff would be hired on a periodic basis as shown in Exhibit II. This will allow us to hire better qualified staff, provide training, and generate the information necessary to ensure that all staff is utilized to the maximum potential.

G. Recommendations

To achieve the desired objective of increasing revenue for the General Fund and encouraging self-compliance, the department recommends Alternative 1. This proposal would:

- Provide an increased enforcement presence that discourages non-compliance and protects the current and future tax base.
- Help to provide assurance to self-compliant taxpayers that California is taking steps to close the tax gap.
- Generate additional tax revenues needed to fund state operations.

If we do not take immediate steps, California's tax gap will continue to grow. Compliant businesses will increasingly be at a disadvantage when competing for business with noncompliant competitors. In our voluntary tax system, most taxpayers comply because it is the right thing to do. Unfortunately, some taxpayers comply only because they believe they will get caught if they do not.

Tax Gap Revenue and Cost Summary

Exhibit I
Page 1 of 4

	<u>FY 08/09</u>	<u>FY 09/10</u>	<u>FY 10/11</u>
1. Use Tax - In-State Service Businesses			
PY's	49.5	106.5	106.5
Anticipated Revenue	13,608,625	25,530,110	34,219,205
Expenditures	4,388,000	8,021,000	7,449,000
Benefit/Cost			4.6
2. Use Tax - Individual Consumers			
PY's	1.5	4.5	4.5
Anticipated Revenue	1,000,000	2,000,000	4,000,000
Expenditures	631,000	746,000	416,000
Benefit/Cost			9.6
3. Non-Filers - Internet Sellers			
PY's	9	11	11
Anticipated Revenues	7,890,500	10,492,710	11,350,210
Expenditures	689,000	747,000	726,000
Benefit/Cost			15.6
4. Non-Filers - Itinerant Vendors			
PY's	2.5	4.5	4.5
Anticipated Revenues	290,500	792,710	1,050,210
Expenditures	198,000	323,000	302,000
Benefit/Cost			3.5
5. Non-Filers - Cash Based Businesses			
PY's	2.5	3.5	3.5
Anticipated Revenues	290,500	562,460	743,210
Expenditures	215,000	263,000	250,000
Benefit/Cost			3.0
6. Registered TPs - Audit Improvements			
PY's	61.0	107.5	107.5
Anticipated Revenues	11,577,500	24,569,910	27,414,660
Expenditures	6,578,000	10,816,000	10,230,000
Benefit/Cost			2.7
7. Registered TPs - Compliance Improvements			
PY's	14	24	24
Anticipated Revenues	2,932,000	5,771,750	6,002,000
Expenditures	1,291,000	2,064,000	1,938,000
Benefit/Cost			3.1
8. Registered TPs - Expanded Bankruptcy/Out-of-State Collection			
PY's	5	9	9
Anticipated Revenues	4,200,936	4,200,936	4,200,936
Expenditures	534,000	713,000	713,000
Benefit/Cost			5.9
Total All Efforts			
Anticipated Revenues	41,790,561	73,920,586	88,980,431
Expenditures	14,524,000	23,693,000	22,024,000
Benefit/Cost	2.9	3.1	4.0

Tax Gap Revenue and Cost Summary (Use Tax)

	1. In-State Service Businesses						2. Individual Consumers					
	FY 2008-09			FY 2009-10			FY 2008-09			FY 2009-10		
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services												
Total Salaries and Wages	49.5	2,444,000	106.5	5,145,000	106.5	5,145,000	1.5	76,000	4.5	220,000	4.5	220,000
Salary Savings	-2.5	-122,000	-5.3	-257,000	-5.3	-257,000	-0.1	-4,000	-0.2	-11,000	-0.2	-11,000
Net Salaries and Wages	47.0	2,322,000	101.2	4,888,000	101.2	4,888,000	1.4	72,000	4.3	209,000	4.3	209,000
Staff Benefits		859,000		1,808,000		1,808,000		27,000		77,000		77,000
Net Total Personal Services	47.0	3,181,000	101.2	6,696,000	101.2	6,696,000	1.4	99,000	4.3	286,000	4.3	286,000
Operating Expense & Equipment (OE&E)												
General Expense		672,000		649,000		194,000		21,000		35,000		9,000
Printing		15,000		15,000		15,000						
Communications		70,000		86,000		56,000		3,000		5,000		3,000
Postage		39,000		39,000		39,000						
Travel-In-State		25,000		56,000		56,000						
Travel-Out-of-State				3,000		3,000						
Training		42,000		78,000		78,000		1,000		4,000		4,000
Facilities Operations		264,000		361,000		304,000		6,000		14,000		14,000
Cons & Prof Sys - External								500,000		400,000		100,000
Data Processing		80,000		38,000		8,000		1,000		2,000		
Equipment								532,000		460,000		130,000
Total OE&E		1,207,000		1,325,000		753,000						
Total Expenditures		4,388,000		8,021,000		7,449,000		631,000		746,000		416,000
FUNDING												
General Fund		2,852,000		5,214,000		4,842,000		410,000		485,000		270,000
Reimbursements		1,536,000		2,807,000		2,607,000		221,000		261,000		146,000
Total		4,388,000		8,021,000		7,449,000		631,000		746,000		416,000
PROGRAM												
Anticipated 2008/2009 Revenues		13,608,625						1,000,000				
Anticipated 2009/2010 Revenues		25,530,110						2,000,000				
Anticipated 2010/2011 Revenues		34,219,205						4,000,000				
Total Revenue		73,357,940						7,000,000				

**Tax Gap Initiatives
(Non-Filers and Tax Evaders)**

	3. Internet Sellers				4. Itinerant Sellers				5. Cash Based Businesses			
	FY 2008-09		FY 2009-10		FY 2010-11		FY 2008-09		FY 2009-10		FY 2010-11	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services												
Total Salaries and Wages	9.0	416,000	11.0	504,000	11.0	504,000	2.5	124,000	4.5	211,000	2.5	124,000
Salary Savings	-0.5	-21,000	-0.6	-25,000	-0.6	-25,000	-0.1	-6,000	-0.2	-11,000	-0.1	-6,000
Net Salaries and Wages	8.5	395,000	10.4	479,000	10.4	479,000	2.4	118,000	4.3	200,000	2.5	118,000
Staff Benefits		146,000		177,000		177,000		44,000		74,000		44,000
Net Total Personal Services	8.5	541,000	10.4	656,000	10.4	656,000	2.4	162,000	4.3	274,000	2.4	162,000
Operating Expense & Equipment (OE&E)												
General Expense		97,000		39,000		20,000		23,000		26,000		33,000
Printing												
Communications		11,000		7,000		6,000		2,000		3,000		5,000
Postage												
Travel-In-State		3,000		5,000		5,000		3,000		5,000		3,000
Travel-Out-of-State												
Training		6,000		8,000		8,000		1,000		3,000		2,000
Facilities Operations		25,000		31,000		31,000		6,000		11,000		9,000
Cons & Prof Svs - External												
Data Processing		6,000		1,000		1,000		1,000		1,000		1,000
Equipment												
Total OE&E		148,000		91,000		70,000		36,000		49,000		53,000
Total Expenditures		689,000		747,000		726,000		198,000		323,000		215,000
FUNDING												
General Fund		448,000		486,000		472,000		129,000		210,000		140,000
Reimbursements		241,000		261,000		254,000		69,000		113,000		75,000
Total		689,000		747,000		726,000		198,000		323,000		215,000
PROGRAM												
Anticipated 2008/2009 Revenues		7,890,500						290,500				290,500
Anticipated 2009/2010 Revenues		10,492,710						792,710				562,460
Anticipated 2010/2011 Revenues		11,350,210						1,050,210				743,210
Total Revenue		29,733,420						2,133,420				1,596,170

**Tax Gap Revenue and Cost Summary
(Registered Taxpayers)**

	6. Audit Program Improvements				7. Collection Improvements				8. Bankruptcy/Out-of-State Collection			
	FY 2008-09		FY 2009-10		FY 2008-09		FY 2009-10		FY 2008-09		FY 2009-10	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services												
Total Salaries and Wages	61.0	3,911,000	107.5	6,927,000	14.0	785,000	24.0	1,378,000	5.0	281,000	9.0	493,000
Salary Savings	-3.1	-196,000	-5.4	-346,000	-0.7	-39,000	-1.2	-69,000	-0.3	-14,000	-0.5	-14,000
Net Salaries and Wages	57.9	3,715,000	102.1	6,581,000	13.3	746,000	22.8	1,309,000	4.7	267,000	8.5	468,000
Staff Benefits		1,374,000		2,434,000		276,000		484,000		99,000		173,000
Net Total Personal Services	57.9	5,089,000	102.1	9,015,000	13.3	1,022,000	22.8	1,793,000	4.7	366,000	8.5	641,000
Operating Expense & Equipment (OE&E)												
General Expense		729,000		656,000		153,000		136,000		100,000		16,000
Printing												
Communications		62,000		70,000		18,000		21,000		11,000		5,000
Postage												
Travel-In-State		30,000		71,000								
Travel-Out-of-State		264,000		512,000		10,000		17,000		20,000		20,000
Training		54,000		77,000						6,000		6,000
Facilities Operations		289,000		380,000		58,000		87,000		25,000		25,000
Cons & Prof Svs - External												
Data Processing		61,000		33,000		30,000		10,000		6,000		
Equipment												
Total OE&E		1,489,000		1,801,000		269,000		271,000		168,000		72,000
Total Expenditures		6,578,000		10,816,000		1,291,000		2,064,000		534,000		713,000
FUNDING												
General Fund		4,276,000		7,030,000		839,000		1,342,000		347,000		463,000
Reimbursements		2,302,000		3,786,000		452,000		722,000		187,000		250,000
Total		6,578,000		10,816,000		1,291,000		2,064,000		534,000		713,000
PROGRAM												
Anticipated 2008/2009 Revenues		11,577,500				2,932,000						4,200,936
Anticipated 2009/2010 Revenues		24,569,910				5,771,750						4,200,936
Anticipated 2010/2011 Revenues		27,414,660				6,002,000						4,200,936
Total Revenue		63,562,070				14,705,750						12,602,808

Position Summaries

Exhibit II
Page 1 of 5

Resources required. To achieve the forecasted revenue, staff requests the following positions to implement this effort, as well as to manage the expected increase in estimated new permits and reported amounts. The positions are grouped by the eight separate proposals, under the three main segments of the tax gap.

Use Tax

1. In-State Service Businesses

To increase use tax collection from in-state service businesses, construction contractors, and other business consumers, staff proposes new outreach and collection efforts targeted at this portion of the tax gap. Positions necessary include:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department - Field Offices		
Tax Auditor	7.0	14.0
Associate Tax Auditor	3.0	6.0
Supervising Tax Auditor	1.0	2.0
Office Technician	1.0	2.0
Business Taxes Representative	5.0	10.0
Business Taxes Compliance Supervisor II	1.0	1.0
Tax Technician I/II	1.0	2.0
Sales and Use Tax Department - Centralized Collection Section		
Business Taxes Representative	15.0	29.0
Business Taxes Compliance Specialist	5.0	9.0
Tax Technician III	4.0	8.0
Business Taxes Specialist I	1.0	2.0
Business Taxes Compliance Supervisor II	2.0	4.0
Business Taxes Compliance Supervisor III	1.0	1.0
Sales and Use Tax Department - Tax Policy Division		
Business Taxes Specialist I (data miners)	2.0	2.0
Sales and Use Tax Department - Headquarters Operations Div.		
Associate Tax Auditor	0.5	0.5
Tax Technician III		1.0
Legal Department – Investigations Division		
Business Taxes Specialist I		1.0
Administration Department		
Associate Personnel Specialist	2.0	2.0
Personnel Specialist	2.0	2.0
Staff Information Systems Analyst	1.0	1.0
Accountant Trainee	1.5	1.5
Customer and Taxpayer Services		
Associate Government Program Specialist	2.0	3.0
Staff Service Analyst/Associate Government Program Specialist	1.0	1.0
Tax Technician I/II	0.5	0.5
Graphic Designer		1.0
Total	59.5	106.5
Adjustment for 19 positions with 1/1/09 start date	-10.0	
Total per Budget	49.5	106.5

Position Summaries

Exhibit II
Page 2 of 5

2. Individual Consumers

In an effort to improve voluntary compliance from individuals, the BOE must expand education and outreach. This will require additional staff at various levels, in different divisions. Needed positions include:

Classification	FY 08/09	FY 09/10
Communications Office		
Assistant Tax Services Specialist	1.0	1.0
Customer and Taxpayer Services Division		
Tax Technician II	0.5	0.5
Assistant Government Program Analyst - Forms and Publications Section		1.0
Sales and Use Tax Department		
Business Tax Representative - Return Analysis		1.0
Tax Auditor - Local Revenue Allocation Unit		1.0
Total	1.5	4.5

Non-Filers and Tax Evaders

3. Internet Sales

To discover Internet retailers that require a California seller's permit, but do not hold one and develop additional leads, the Board will require additional staff in several of the Sales and Use Tax sections, at different levels of expertise. Required positions include:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department – Tax Policy Division		
Business Taxes Specialist I	1.0	1.0
Sales and Use Tax Department – Centralized Collection Section		
Business Taxes Representative	2.0	2.0
Business Taxes Compliance Specialist	1.0	1.0
Tax Technician III	1.0	1.0
Staff Services Analyst	2.0	2.0
Sales and Use Tax Department – District Offices		
Tax Auditor	1.0	2.0
Business Taxes Representative	1.0	2.0
Total	9.0	11.0

4. Itinerant Vendors

To locate, identify, and register instate and out-of-state itinerant vendors with nexus in California, the Board will require additional staff in several Sales and Use Tax sections, at different levels of expertise. Required positions include:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department – Tax Policy Division		
Business Taxes Specialist I – Audit and Information Section	0.5	0.5
Sales and Use Tax Department – District Offices		
Tax Auditor	1.0	2.0
Business Taxes Representative	1.0	2.0
Total	2.5	4.5

Position Summaries

5. Cash Based Businesses

In order to improve collections from cash based businesses, the following positions are needed:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department – Tax Policy Division		
Business Taxes Specialist I –Audit and Information	0.5	0.5
Sales and Use Tax Department – District Offices		
Tax Auditor	1.0	2.0
Business Taxes Representative	1.0	1.0
Total	2.5	3.5

Position Summaries

Exhibit II
Page 4 of 5

Registered Taxpayers

6. Audit Program Improvements

In order to expand and improve the BOE's audit program, staff requests the following positions:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department – District Offices		
Associate Tax Auditor	7.0	14.0
Business Taxes Specialist I	5.0	10.0
Business Taxes Specialist I- Reviewer	2.0	3.0
Supervising Tax Auditor I	1.0	1.0
Supervising Tax Auditor II	1.0	2.0
Staff Information System Analyst (LAN coordinators)	2.0	2.0
Office Technician	1.0	1.0
Business Taxes Representative	4.0	7.0
Business Taxes Compliance Specialist	2.0	3.0
Business Taxes Specialist I	4.0	7.0
Business Taxes Compliance Supervisor II	1.0	2.0
Tax Technician II	2.0	4.0
Associate Tax Auditor – OH office	2.0	4.0
Associate Tax Auditor – OHA and OHB offices	4.0	8.0
Business Taxes Specialist I – OH office	2.0	4.0
Business Taxes Specialist I – OHA and OHB offices	4.0	8.0
Business Taxes Specialist I – OHA office reviewer	1.0	1.0
Supervising Tax Auditor II –OHA and OHB offices	2.0	2.0
Supervising Tax Auditor II - OH office	1.0	1.0
Staff Information System Analyst – LAN coordinator OHA office	1.0	1.0
Sales and Use Tax Department - Centralized Collections		
Business Taxes Representative	1.0	1.0
Sales and Use Tax Department – Tax Policy Division		
Business Taxes Specialist II - Compliance and Technology Section	1.0	1.0
Staff Information System Analyst – Compliance and Technology Section	1.0	1.0
Business Tax Administrator II	1.0	1.0
Business Taxes Specialist I – Business Taxes Committee and Training Section	1.0	2.0
Sales and Use Tax Department – Headquarters Operations Division		
Associate Tax Auditor – Petitions Section	1.0	1.0
Tax Auditor – Audit Determinations and Refunds Section	0.5	0.5
Associate Tax Auditor – Audit Determinations and Refunds Section	1.0	1.0
Legal Department		
Tax Counsel III – Appeals Division		1.0
Secretary – Appeals Division		1.0
Tax Counselor IV – Legal Affairs Division		1.0
Investigations		
Business Taxes Specialist I		1.0
Associate Tax Auditor		1.0
Administrative Department		
Associate Personnel Analyst		2.0
Personnel Specialist		1.0
Staff Information System Analyst – Technical Support Department	1.0	2.0
Associate Government Program Analyst	4.0	4.0
Total	61.5	107.5
Adjustment for 1.0 position with 1/1/09 start date	-0.5	
Total per Budget	61.0	107.5

Position Summaries

Exhibit II
Page 5 of 5

7. Collection Program Improvements

In order to expand and improve the BOE's collection program, staff requests the following positions:

Classification	FY 08/09	FY 09/10
Sales and Use Tax Department – District Offices		
Business Taxes Representative	4.0	7.0
Business Taxes Compliance Specialist	2.0	4.0
Business Taxes Specialist I	3.0	7.0
Business Taxes Compliance Supervisor II	1.0	2.0
Sales and Use Tax Department – Centralized Collection Section		
Business Taxes Compliance Specialist	1.0	1.0
Sales and Use Tax Department – Tax Policy Division		
Business Taxes Specialist I - Compliance Policy Unit	1.0	1.0
Business Taxes Compliance Specialist - Compliance and Technology Section	1.0	1.0
Customer and Taxpayer Services Division		
Tax Technician II	1.0	1.0
Total	14.0	24.0

8. Expanded Bankruptcy and Out-of-State Collections

To achieve the forecasted revenue, staff requests the following positions to implement this effort:

Classification	FY 08/09	FY 09/10
Legal Department - Legal Affairs (Spec Procedures)		
Staff Programmer Analyst	1.0	1.0
Business Taxes Compliance Supervisor I	1.0	1.0
Business Taxes Compliance Specialist	2.0	2.0
Business Taxes Specialist I	1.0	1.0
Business Taxes Representative	2.0	2.0
Tax Technician III	1.0	1.0
Associate Government Program Analyst	1.0	1.0
Total	9.0	9.0
Adjustment for 8.0 positions with 1/1/09 start date	-4.0	
Total per Budget	5.0	9.0

Use Tax**1. In-State Service Businesses**

Revenue for this effort was estimated through a combination of new outreach efforts to identify and contact service businesses that do not hold a permit, as well as expected results from traditional audit and collection practices.

Traditional efforts: Revenue from traditional efforts was estimated based on the expected results from adding newly hired field auditors and collectors. Tracking of entry-level Tax Auditors shows that these auditors do not achieve full productivity until after their second year of auditing. Based on a 2002 Sales and Use Tax Department study of entry-level auditors, on average, the auditor produces revenue the first year at 25% of full production and 81% of full production in the second year. Using average audit assessments per in-state auditor for FY 05/06, staff estimates each newly hired Tax Auditor will bring in \$60,250 the first year, \$195,210 the second year, and \$241,000 the third and subsequent years. To allow time to generate referrals from data miners and the Centralized Collections Section, hiring for field audit and collection staff for FY 08/09 would not begin until 1/1/09. Accordingly, estimated revenue for those positions in FY 08/09 was calculated for six months only.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

In-state service businesses – new auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors hired in FY 08/09 (7.0 PY)	\$210,875	\$894,110	\$1,526,735
Revenue from Tax Auditors hired in FY 09/10 (7.0 PY)		\$421,750	\$1,366,470
Total	\$210,875	\$1,315,860	\$2,893,250

In-state auditors hired at the Associate Tax Auditor level would be promotional hires and would be expected to achieve full productivity once they are hired. Using average audit assessments per in-state auditor from FY 05/06, staff estimates each newly promoted Associate Tax Auditor will bring in \$276,000 annually. Again, revenue for audit positions in FY 08/09 was calculated for six months only.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

In-state service businesses – experienced auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Associate Tax Auditors hired in FY 08/09 (3.0 PY)	\$414,000	\$828,000	\$828,000
Revenue from Associate Tax Auditors hired in FY 09/10 (3.0 PY)		\$828,000	\$828,000
Total	\$414,000	\$1,656,000	\$1,656,000

Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$153,500 in the first six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,000 the first year and \$307,000 the second and subsequent years. (Revenue for collector positions in FY 08/09 was calculated for six months to correspond with the 1/1/09 hiring date.)

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In-state service businesses – collectors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Collectors hired in FY 08/09 (5.0 PY)	\$383,750	\$1,535,000	\$1,535,000
Revenue from Collectors hired in FY 09/10 (5.0 PY)		\$1,151,250	\$1,535,000
Total	\$383,750	\$2,686,250	\$3,070,000

New efforts: Revenue from new investigative efforts was estimated based on the identification and contact of service businesses, construction contractors, and other business consumers that do not hold a permit with the BOE. Staff estimates that at full operation, six letter campaigns of 20,000 letters per campaign could be sent each year (120,000 letters annually). Staff estimates that 2% of the letters will result in the issuance of Consumer Use Tax permits (2,400 permits) reporting \$476 in tax annually (assumes \$500 in monthly purchases subject to use tax using an average 7.94% tax rate). Staff further estimates that 10% of the letters will result in the filing of one-time returns of \$2,000 per return (or just over \$25,000 in purchases subject to use tax). (In comparison, sales and use tax audits show that the average audit liability on purchases from out-of-state vendors is nearly \$18,000 in tax. Using the standard three-year audit period, this means assessments of \$6,000 in tax annually, or approximately \$75,000 in purchases annually.)

FY 08/09: Given that this is a new effort, staff estimates that in the first year, achieved results would be at only 50% of the expected fully operational results. Accordingly, staff estimates 1,200 new Consumer Use Tax permits will be issued and 6,000 one-time returns will be filed.

Leads resulting in permits	Annual revenue per permit	Annual revenue from all new permits
1,200	\$476	\$571,200

Leads resulting in one-time returns	Annual revenue per permit	Annual revenue from one-time returns
6,000	\$2,000	\$12m

Total revenue for FY 08/09 from new efforts: \$12.6 million.

FY 09/10: In the second year, staff estimates achieved results would be at 80% of the fully operational results. Accordingly, staff estimates 1,920 new Consumer Use Tax permits will be issued and 9,600 one-time returns will be filed.

Leads resulting in permits	Annual revenue per permit	Annual revenue from all new permits
1,920	\$476	\$913,920

Leads resulting in one-time returns	Annual revenue per permit	Annual revenue from one-time returns
9,600	\$2,000	\$19.2m

In addition, the estimated revenue reported in FY 09/10 is expected to include \$571,200 from permits issued in FY 08/09.

Total revenue for FY 09/10 from new effort: \$20.7 million.

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FY 10/11: By the third year, staff estimates the outreach leads will result in an achievement of 100% of the fully operational results. Staff estimates 1,920 new Consumer Use Tax permits will be issued and 9,600 one-time returns will be filed.

Leads resulting in permits	Annual revenue per permit	Annual revenue from all new permits
2,400	\$476	\$1.1m

Leads resulting in one-time returns	Annual revenue per permit	Annual revenue from one-time returns
12,000	\$2,000	\$24m

In addition, the estimated revenue to be reported in FY 10/11 is expected to include \$571,200 from permits issued in FY 08/09 and \$913,920 from permits issued in FY 09/10.

Total revenue for FY 09/10 from new effort: \$26.6 million.

Total revenue for the in-state service business effort is estimated at:

	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors	\$210,875	\$1,315,860	\$2,893,250
Revenue from Associate Tax Auditors	\$414,000	\$1,656,000	\$1,656,000
Revenue from Collectors	\$383,750	\$2,686,250	\$3,070,000
Revenue from New Efforts	\$12,600,000	\$20,700,000	\$26,600,000
Total Revenue	\$13.6 million	\$25.5 million	\$34.2 million

2. Individual Consumers

Revenue for this effort was estimated based on an improvement in the level of reporting on professionally prepared income tax returns as compared to the reporting from self-prepared returns. Currently, based on the number of returns filed, individuals preparing their own returns are seven times more likely to pay use tax than professionally prepared returns. By raising this level of compliance to even a three to one ratio (i.e., where individuals preparing their own returns are three times more likely to pay use tax than professionally prepared returns), staff estimates revenue of:

- \$1 million in FY 08/09,
- \$2 million in FY 09/10, and
- \$4 million in FY 10/11

The projected increases in revenue are partially attributable to the tendency for higher income individuals to make use of the services offered by tax practitioners and for higher income individuals to report larger use tax amounts. The dollar amounts reported on professionally prepared returns have consistently been higher than the dollar amounts reported on self-prepared returns.

Non-Filers and Tax Evaders**3. Internet Sales**

Revenue for this effort was estimated through a combination of new data matching and investigative efforts targeting Internet sellers, as well as expected results from traditional audit and collection practices.

Traditional efforts: Revenue from traditional efforts was estimated based on the expected results from adding newly hired field auditors and collectors. Tracking of entry-level Tax Auditors shows that these auditors do not achieve full productivity until after their second year of auditing. Based on a 2002 Sales and Use Tax Department study of entry-level auditors, on average, the auditor produces revenue the first year at 25% of full production and 81% of full production in the second year. Using average audit assessments per in-state auditor from FY 05/06, staff estimates each newly hired Tax Auditor will bring in \$60,250 the first year, \$195,210 the second year, and \$241,000 the third and subsequent years.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

Internet - auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors hired in FY 08/09 (1.0 PY)	\$60,250	\$195,210	\$241,000
Revenue from Tax Auditors hired in FY 09/10 (1.0 PY)		\$60,250	\$195,210
Total	\$60,250	\$255,460	\$436,210

Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$153,500 in the first six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,000 the first year and \$307,000 the second and subsequent years.

Internet - collectors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Collectors hired in FY 08/09 (1.0 PY)	\$230,250	\$307,000	\$307,000
Revenue from Collectors hired in FY 09/10 (1.0 PY)		\$230,250	\$307,000
Total	\$230,250	\$537,250	\$614,000

New efforts: Revenue from new investigative efforts was estimated based on the identification of 10,000 leads each year with 30% of those leads resulting in the issuance of a seller's permit. Staff acknowledges that finding this high number of leads depends on working in cooperation with on-line market places to gather information. Given the small home business nature of many retailers selling through the Internet, it is estimated that only \$1,000 in taxable monthly sales will be reported by these retailers. Using an average sales and use tax rate of 7.94%, this results in monthly revenue of \$79.40, or \$952.80 annually per permit.

Leads resulting in permits	Annual revenue per permit	Annual revenue from all new permits
3,000	\$952.80	\$2.9m

To estimate prior taxes owed by these retailers, staff used 1.89 as the average number of years in operation without a permit, as discovered in the Business License Investigation Program (BLIP). Staff also used the 87.7% collection rate percentage used in the BLIP BCP to estimate the amount of owed back taxes that would actually be collected.

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Annual revenue from permits	Average yrs operating without a permit	Tax owed from prior years	Collection rate	Revenue from prior taxes owed
\$2.9m	1.89	\$5.4m	.877	\$4.7m

FY 08/09: Staff estimates revenue of \$7.6 million from new permits (\$2.9m) and prior taxes owed by those permits (\$4.7m).

FY 09/10: Staff estimates revenue of \$7.6 million from new permits (\$2.9m) and prior taxes owed by those permits (\$4.7m). In addition, staff estimates the amount of revenue reported in FY 09/10 from permits issued in FY 08/09 by multiplying the amount of annual revenue from new permits issued in 08/09 by 75% to estimate revenue lost from businesses that discontinued operations in FY 09/10: $\$2.9m \times 75\% = \$2.1m$.

Total revenue estimated for FY 09/10 from this effort is \$9.7 million (\$2.9m from new permits + \$4.7m from prior taxes owed by those permits, and \$2.1m from permits issued in FY 08/09).

FY 10/11: Staff estimates revenue of \$7.6 million from new permits (\$2.9m) and prior taxes owed by those permits (\$4.7m). Expected revenue to be reported in FY 10/11 from permits issued in FY 09/10 was estimated by multiplying the amount of annual revenue from new permits issued in 09/10 by 75% to estimate revenue from businesses still in operation in FY 09/10: $\$2.9m \times 75\% = \$2.1m$.

Expected revenue reported in FY 10/11 from permits issued in FY 08/09 was estimated by multiplying the estimated reported revenue from those permits in 09/10 by 25% to estimate revenue from businesses that were still in operation in FY 10/11: $\$2.1m \times 25\% = \$535,000$.

Total revenue estimate for FY 09/10 from this effort is \$10.3 million (\$2.9m from new permits + \$4.7m from prior taxes owed by those permits, \$2.1m from permits issued in FY 09/10, and \$535,000 from permits issued in FY 08/09).

Total revenue for this effort is estimated at:

Internet efforts	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors	\$60,250	\$255,460	\$436,210
Revenue from Collectors	\$230,250	\$537,250	\$614,000
Revenue from New Efforts	\$7,600,000	\$9,700,000	\$10,300,000
Total Revenue	\$7,890,500	\$10,492,710	\$11,350,210

4. Itinerant Vendors

Revenue for this effort was estimated based on the expected results from adding newly hired field auditors and collectors. Tracking of new entry-level Tax Auditors shows that these auditors do not achieve full productivity until after their second year of auditing. Based on a 2002 Sales and Use Tax Department study of entry-level auditors, on average, the auditor produces revenue the first year at 25% of full production and 81% of full production in the second year. Using average audit assessments per in-state auditor from FY 05/06, staff estimates each entry-level Tax Auditor will bring in \$60,250 the first year, \$195,210 the second year, and \$241,000 the third and subsequent years.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

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Itinerant vendors- auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors hired in FY 08/09 (1.0 PY)	\$60,250	\$195,210	\$241,000
Revenue from Tax Auditors hired in FY 09/10 (1.0 PY)		\$60,250	\$195,210
Total	\$60,250	\$255,460	\$436,210

Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$153,500 in the first six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,000 the first year and \$307,000 the second and subsequent years.

Itinerant vendors - collectors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Collectors hired in FY 08/09 (1.0 PY)	\$230,250	\$307,000	\$307,000
Revenue from Collectors hired in FY 09/10 (1.0 PY)		\$230,250	\$307,000
Total	\$230,250	\$537,250	\$614,000

Total revenue for this effort is estimated at:

Itinerant vendors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors	\$60,250	\$255,460	\$436,210
Revenue from Collectors	\$230,250	\$537,250	\$614,000
Total Revenue	\$290,500	\$792,710	\$1,050,210

5. Cash Based Businesses

Revenue for this effort was estimated based on the expected results from adding newly hired field auditors and collectors. Tracking of entry-level Tax Auditors shows that these auditors do not achieve full productivity until after their second year of auditing. Based on a 2002 Sales and Use Tax Department study of entry-level auditors, on average, the produces revenue the first year at 25% of full production and 81% of full production in the second year. Using average audit assessments per in-state auditor from FY 05/06, staff estimates each entry-level Tax Auditor will bring in \$60,250 the first year, \$195,210 the second year, and \$241,000 the third and subsequent years.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

Cash based businesses - auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors hired in FY 08/09 (1.0 PY)	\$60,250	\$195,210	\$241,000
Revenue from Tax Auditors hired in FY 09/10 (1.0 PY)		\$60,250	\$195,210
Total	\$60,250	\$255,460	\$436,210

Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$153,500 in the first six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,000 the first year and \$307,000 the second and subsequent years.

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Cash based businesses - collectors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Collectors hired in FY 08/09 (1.0 PY)	\$230,250	\$307,000	\$307,000
Total	\$230,250	\$307,000	\$307,000

Total revenue for this effort is estimated at:

Cash based businesses	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Tax Auditors	\$60,250	\$255,460	\$436,210
Revenue from Collectors	\$230,250	\$307,000	\$307,000
Total Revenue	\$290,500	\$562,460	\$743,210

Registered Taxpayers

6. Audit Program Improvements

Revenue was estimated based on the expected results from adding newly hired field auditors and collectors. The in-state auditors for this effort are designated at the Associate Tax Auditor and Business Taxes Specialist I levels. Using average audit assessments per in-state auditor from FY 05/06, staff estimates each new Associate Tax Auditor will bring in \$276,000 annually and each new Business Taxes Specialist I will bring in \$259,000 annually.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

In-state audit improvements	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Associate Tax Auditors hired in FY 08/09 (7.0 PY)	\$1,932,000	\$1,932,000	\$1,932,000
Revenue from Business Taxes Specialists I's hired in FY 08/09 (5.0 PY)	\$1,295,000	\$1,295,000	\$1,295,000
Revenue from Associate Tax Auditors hired in FY 09/10 (7.0 PY)		\$1,932,000	\$1,932,000
Revenue from Business Taxes Specialists I's hired in FY 09/10 (5.0 PY)		\$1,295,000	\$1,295,000
Total	\$3,227,000	\$6,454,000	\$6,454,000

Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$76,750 in the first six months, \$153,500 in the next six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,250 the first year and \$307,000 the second and subsequent years. Experienced collectors bring in revenue at \$307,000 a year.

Audit improvements - collectors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from new Collectors hired in FY 08/09 (4.0 PY)	\$921,000	\$1,228,000	\$1,228,000
Revenue from experienced Collectors hired in FY 08/09 (6.0 PY)	\$1,842,000	\$1,842,000	\$1,842,000
Revenue from new Collectors hired in FY 09/10 (3.0 PY)		\$690,750	\$921,000
Revenue from experienced Collectors hired in FY 08/09 (4.0 PY)		\$1,228,000	\$1,228,000
Total	\$2,763,000	\$4,988,750	\$5,219,000

Staff also proposes adding new and experienced auditors to the out-of-state field offices. Tracking of entry-level auditors shows that these auditors do not achieve full productivity until after their second year of auditing. Based on a 2002 Sales and Use Tax Department study of entry-level auditors, on average, the auditor produces revenue the first year at 25% of full

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production and 81% of full production in the second year. Auditors hired for the out-of-state field offices will be hired at the Associate Tax Auditor level. Using average audit assessments per out-of-state auditor from FY 05/06, staff estimates each newly hired Associate Tax Auditor will bring in \$145,250 the first year, \$470,610 the second year, and \$581,000 the third and subsequent years.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

Out-of-state audit improvements – new auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Associate Tax Auditors hired in FY 08/09 (6.0 PY)	\$871,500	\$2,823,660	\$3,486,000
Revenue from Associate Tax Auditors hired in FY 09/10 (6.0 PY)		\$871,500	\$2,823,660
Total	\$871,500	\$3,695,160	\$6,309,660

In-state auditors hired at the Business Taxes Specialist I level would be promotional hires and would be expected to achieve full productivity once they are hired. Using average audit assessments per in-state auditor from FY 05/06 staff estimates each new Business Taxes Specialist will bring in \$786,000 annually.

The FY 05/06 average assessment amounts were reduced to account for estimated refunds, cancellations, and uncollectible accounts.

Out-of-state audit improvements – experienced auditors	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Business Taxes Specialist I hired in FY 08/09 (6.0 PY)	\$4,716,000	\$4,716,000	\$4,716,000
Revenue from Business Taxes Specialist I hired in FY 09/10 (6.0 PY)		\$4,716,000	\$4,716,000
Total	\$4,716,000	\$9,432,000	\$9,432,000

Total revenue for this effort is estimated at:

Audit program improvements	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from In-state Auditors	\$3,227,000	\$6,454,000	\$6,454,000
Revenue from Collectors	\$2,763,000	\$4,988,750	\$5,219,000
Revenue from new Out-of-state Auditors	\$871,500	\$3,695,160	\$6,309,660
Revenue from experienced Out-of-state Auditors	\$4,716,000	\$9,432,000	\$9,432,000
Total Revenue	\$11,577,500	\$24,569,910	\$27,414,660

7. Collection Program Improvements

Revenue for this effort was estimated through a combination of improved data matching efforts, as well as expected results from traditional audit and collection practices.

Traditional efforts: Revenue from traditional efforts was estimated based on the expected results from adding newly hired field collectors. Tracking of newly hired collectors shows that collectors achieve full productivity after their first six months of employment. Using the average accounts receivable collections per collector from FY 05/06, staff estimates each collector will bring in \$76,750 in the first six months, \$153,500 in the next six months, and \$307,000 annually after the first six months. Thus, annual revenue for collectors is estimated at \$230,250 the first year and \$307,000 the second and subsequent years. Experienced collectors bring in revenue at \$307,000 a year.

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Collection program improvements	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from new Collectors hired in FY 08/09 (4.0 PY)	\$921,000	\$1,228,000	\$1,228,000
Revenue from experienced Collectors hired in FY 08/09 (5.0 PY)	\$1,535,000	\$1,535,000	\$1,535,000
Revenue from new Collectors hired in FY 09/10 (3.0 PY)		\$690,750	\$921,000
Revenue from experienced Collectors hired in FY 08/09 (6.0 PY)		\$1,842,000	\$1,842,000
Total	\$2,456,000	\$5,295,750	\$5,526,000

New efforts: Revenue from improved data matching efforts was estimated based on identifying 5,000 leads each year with 10% of those leads resulting in the issuance of a seller's permit. To be conservative, staff estimated only \$1,000 in taxable monthly sales from these retailers. Using an average sales and use tax rate of 7.94%, this results in monthly revenue of \$79.40, or \$952.80 annually per permit.

Leads resulting in permits	Annual revenue per permit	Annual revenue from new permits
500	\$952.80	\$476,400

Total revenue for this effort is estimated at:

Collection program improvements	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Revenue from Collectors	\$2,456,000	\$5,295,750	\$5,526,000
Revenue from New Efforts	\$476,000	\$476,000	\$476,000
Total Revenue	\$2,932,000	\$5,771,750	\$6,002,000

8. Registered Taxpayers/Expanded Bankruptcy and Out-of-State Collections

Revenue for this effort was estimated based on:

- Savings due to electronic database matching: Expected increase in number of data matches by 0.5%, resulting in an increased collection of bankruptcy payments; return payments; and unapplied payments for FY 05/06 of 0.5%.

Calculations:

.005 x 2,200 (average # of active accounts in bankruptcy per FY) = 11 accounts

.005 x \$250,923,057 (total bankruptcy pymnts + return pymnts + unapplied pymnts) = \$1,254,615

- Savings due to recordation of tax liens: Acceleration of lien filings by 0.5% is expected to provide BOE with a higher priority than competing creditors; thus, providing for an increase in lien collections. This should result in an increase of \$1,556,640 per year.

Calculations:

.005 acceleration x 8,023 (total # of FY 06/07 liens) = 40 more liens a year

\$312,223,935 (total \$ of FY 06/07 liens) ÷ 8,023 (total # of FY 06/07 liens) = \$38,916 average lien amt.

40 liens per year x \$38,916 average lien amount = \$1,556,640

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- Savings due to electronic storage of records: An increase in the number of records retained is expected to increase collections on written-off lien liabilities. This should result in a 0.25% increase in the amount collected from written-off accounts of \$245,681 per year.

Calculations:

\$98,272,220 (amount written off in FY 06/07) x 0.0025 = \$245,681

- Savings due to additional collection staff: Increase in revenue generating collection staff should produce an increase in collections of approximately \$1,144,000.

Calculations:

4 collectors x \$283,000 average collected per person = \$1,144,000.

Improved bankruptcy and out-of-state collections	Revenue FY 08/09	Revenue FY 09/10	Revenue FY 10/11
Savings from electronic database matching	\$1,254,615	\$1,254,615	\$1,254,615
Savings from recordation of tax liens	\$1,556,640	\$1,556,640	\$1,556,640
Savings from electronic record storage	\$245,681	\$245,681	\$245,681
Savings from increase in collection staff	\$1,144,000	\$1,144,000	\$1,144,000
Total	\$4,200,936	\$4,200,936	\$4,200,936